

NORTH DAKOTA STATE EMPLOYEE COMPENSATION COMMISSION

October 5, 2010

Human Resource Management Services Division
Office of Management & Budget

Average Classified Employee

	Years of Age	Years of Service	Annual Salary	Actual Increase	Appropriated	Compa-Ratio	Notes
January-93	42.0	9.5	22,189				
January-94	42.0	11.0	22,812	2.8%	\$60/mo		
January-96	46.0	11.4	25,476	11.7%	5.0%		
January-97	43.0	12.2	26,273	3.1%	3.0%		
January-98	43.8	12.1	27,034	2.9%	3.0%	0.98	
August-98	44.0	12.1	27,963	3.4%	3.0%	0.97	
November-99	44.2	12.2	28,860	3.2%	2.0%	0.96	(1)
August-00	44.4	12.3	29,993	3.9%	2.0%	0.97	(2)
August-01	44.8	12.5	31,467	4.9%	3.0%	0.96	(1)
December-02	45.4	12.6	32,262	2.5%	2.0%	0.96	
December-03	45.7	13.2	32,627	1.1%	0.0%	0.96	
December-04	45.9	13.2	32,604	0.0%	0.0%	0.96	
December-05	46.1	13.6	34,158	4.8%	4.0%	0.96	(3)
December-06	46.2	13.4	35,640	4.3%	4.0%	0.96	
December-07	46.2	13.2	37,834	6.2%	4.0%	0.95	(4)
August-08	46.4	13.2	39,622	4.7%	4.0%	0.96	
August-09	46.6	13.4	42,382	6.9%	5.0%	0.96	(5)
August -10	46.5	13.3	44,767	5.6%	5.0%	0.96	

Classified Employees

Aug 2009 – 6,722
 Aug 2008 – 6,639
 Dec 2007 – 6,558
 Dec 2006 – 6,384
 Dec 2005 – 6,443

(1) Included 1999 & 2001 Market/Equity Fund Increases (\$5.4 & \$5.0 mill respectively)

(2) Included authorization for agencies to “self-fund” additional 1.0%

(3) 2005 Leg approp equity sal inc's of \$1.5 mill for DOCR & \$413,000 for Hwy Patrol

(4) Included Market/Equity Fund (\$10 mill)

(5) Included Market/Equity Pool (\$23 mill)

Employment Market

- ▣ Grades 1-10
 - Job Service ND Labor Market Information
 - In State Employers
 - 169 Benchmark Jobs
- ▣ Grades 11-20
 - Central States Compensation Association
 - ▣ CO, IA, KS, MN, MO, **MT**, NE, OK, **SD**, **WY**
 - ▣ State Government Jobs
 - ▣ 103 Benchmark Jobs
 - Added Job Service Labor Market Information
 - ▣ In State Employers
 - ▣ 93 Benchmark Jobs

2009 Paylines Grades 1-10

Annual Salary

42,000

37,000

32,000

27,000

22,000

17,000

1

2

3

4

5

6

7

8

9

10

Grade

- Mdpt
- JSND
- Classified

2010 Paylines Grades 1-10

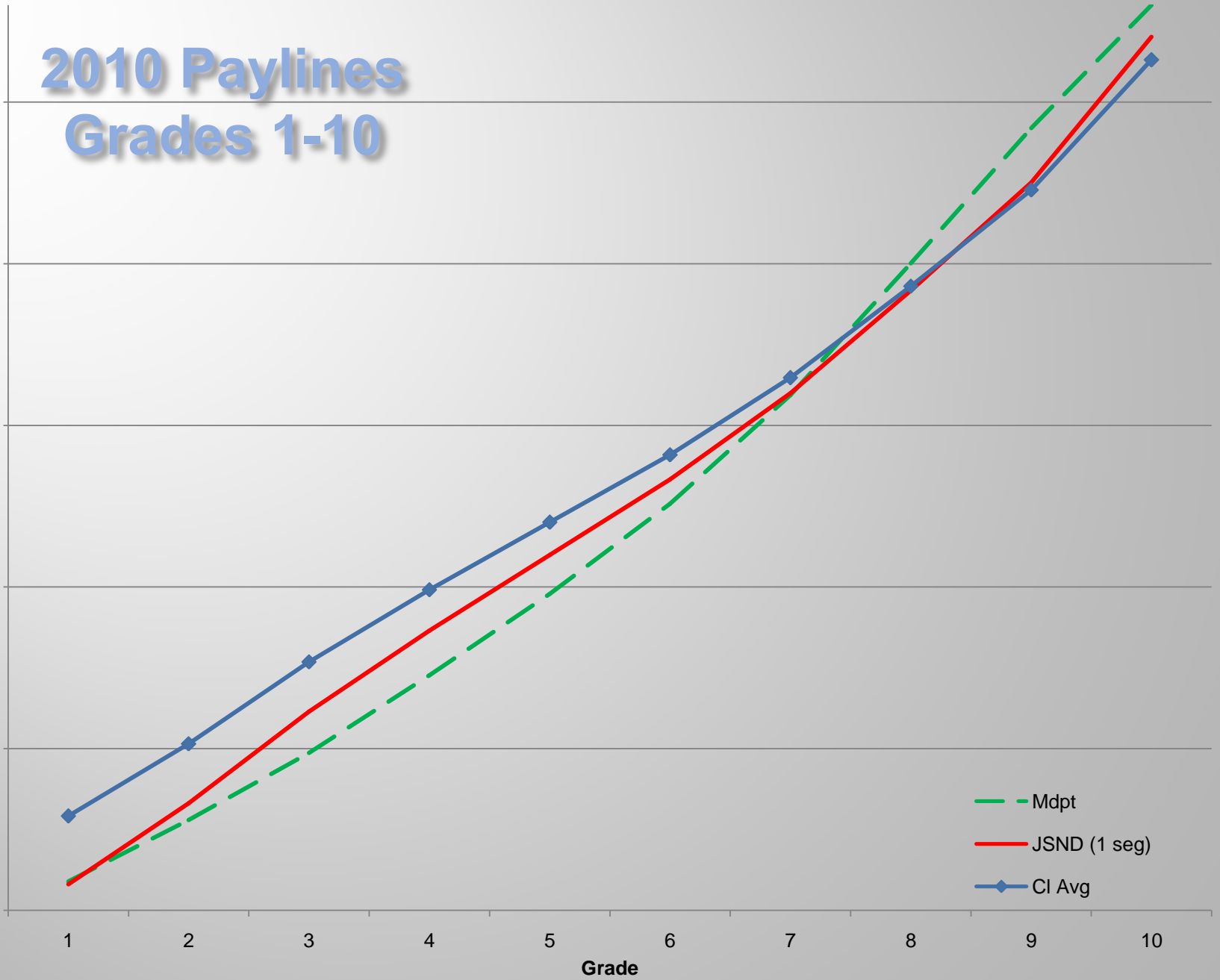
Annual Salary

43,000
38,000
33,000
28,000
23,000
18,000

1 2 3 4 5 6 7 8 9 10

Grade

Mdpt
JSND (1 seg)
CI Avg



2009 Paylines Grades 11-20

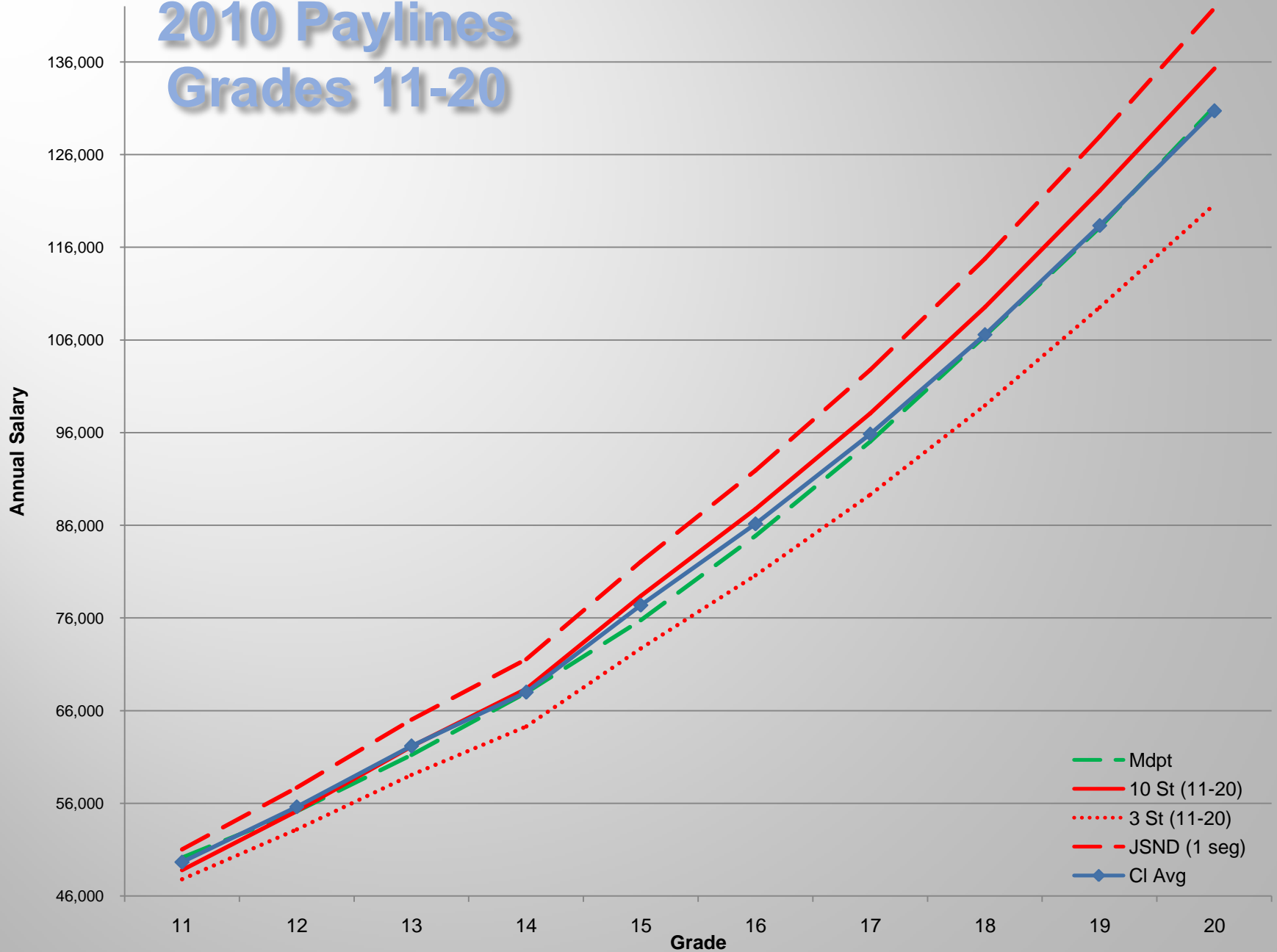
Annual Salary

136,000
126,000
116,000
106,000
96,000
86,000
76,000
66,000
56,000
46,000

11 12 13 14 15 16 17 18 19 20
Grade

- Midpoint
- 10 State
- 3 State
- JSND
- Classified

2010 Paylines Grades 11-20



Classified to Market Lead / Lag

Grade	Classified Midpoint to Mkt:					Classified Average Salary to Mkt:					Grade
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	
4	-9.3%	-14.2%	-11.2%	-5.4%	-5.5%	-11.4%	-13.5%	-12.9%	-3.6%	4.5%	4
8	-14.3%	-4.2%	-8.0%	1.4%	2.2%	-17.3%	-12.0%	-9.0%	-3.4%	0.4%	8
12	-10.8%	-9.5%	-9.0%	-6.4%	0 - -4.6%	-12.9%	-12.3%	-11.0%	-7.2%	0.9 - -3.7%	12
16	-15.5%	-12.9%	-15.3%	-10.8%	-3.4 - -8.3%	-15.5%	-7.7%	-11.2%	-5.6%	-1.8 - -6.7%	16

Classified to Market Lead / Lag

2009

Grade	Classified Midpoint to:			Classified Average Salary to:			Grade
	10 State Market	3 State Market	JSND Market	10 State Market	3 State Market	JSND Market	
4			-5.4%			-3.6%	4
8			1.4%			-3.4%	8
12	-4.6%	-1.5%	-6.4%	-5.3%	-2.2%	-7.2%	12
16	-10.1%	-1.3%	-10.8%	-5.0%	3.4%	-5.6%	16

2010

Grade	Classified Midpoint to:			Classified Average Salary to:			Grade
	10 State Market	3 State Market	JSND Market	10 State Market	3 State Market	JSND Market	
4			-5.5%			4.5%	4
8			2.2%			0.4%	8
12	0.0%	3.6%	-4.6%	0.9%	3.6%	-3.7%	12
16	-3.4%	5.0%	-8.3%	-1.8%	8.1%	-6.7%	16

SECTION 7. LEGISLATIVE COUNCIL STUDY - STATE EMPLOYEE COMPENSATION.

“ . . . the legislative council shall consider studying the classified state employee compensation system, including . . . pay grades and classifications. The legislative council shall report its findings and recommendations . . . to the sixty-second legislative assembly.”

RFP Provisions:

1. Methods used to develop and determine position classifications.
2. Methods used to set pay grade minimums, maximums, and midpoints.
3. Appropriate market comparisons.
4. Methods to minimize salary inequities both within an agency and within state government.
5. Methods of developing and sustaining a consistent long-term salary increase administration policy for state government, including the advisability of using cost-of-living increases, across-the-board increases, merit increases, equity increases, and performance increases.
6. A budget and appropriation process for providing funds to agencies to administer the state's salary increase policy.
7. The appropriate use of funding available within agency budgets from accumulated savings resulting from vacant positions and employee turnover.
8. Fringe benefits.
9. Recruitment and retention tools.
10. A state compensation philosophy statement.

Hay Group Component Analysis

▣ A summary of analysis follows:

1. Compensation Philosophy

- ▣ North Dakota Code has some statements about compensation policies, roles and relationships, there is no clear statement of a Compensation Philosophy

2. Methods of Classification and Job Evaluation

- ▣ While the methods, processes and forms used are sound, there are opportunities for enhancements . . .
- ▣ Compression in allocation of classifications to grades . . . there are 20 grades, only 14 are primarily used.
- ▣ The State has utilized a modified version of the Hay Method of Job Evaluation since 1982. The use of a job evaluation is a strength
- ▣ . . . while there has been consistent application of this process by HRMS, . . . it is our opinion that evaluations using the Hay Method of Job Evaluation would result in different evaluations . . .

3. Salary Equity

- ▣ Overall compa-ratio is 96% relative to range midpoint . . .
- ▣ While the State has one salary structure, analysis shows that there are multiple pay practices, reflective of either occupational groups or job families
- ▣ In some cases, there is a wide range of pay for the same classification in different Agencies

Hay Group Component Analysis

4. Market Definition and Pay Ranges

- The current market definition is loosely defined, has been the focus of debate in recent years and is not aligned with the competitive talent needs of the State
- The definition of the market needs to be driven by the State's compensation philosophy, not by just geography considerations
- The current salary ranges are stated as being set at 5% below the average of the market. However, Hay Group analysis shows that midpoints range from 10% below the market to 3% above the market
- Levels of competitiveness must be viewed in conjunction with compa-ratio analysis
- There are a number of classifications where the State's average pay lags the market by more than 15%
- The State utilizes wide pay ranges. This, coupled with the midpoint being set at 95% of the currently defined market, places a significant need to have strong processes for moving employees through their salary ranges

5. Fringe Benefits

- The State offers a sound, comprehensive and cost-effective benefits program with the healthcare and retirement programs being its strength and the Life and Disability programs being less competitive
- It is the opinion of Hay Group that this program does not need significant changes . . .

Hay Group Component Analysis

6. Recruitment and Retention Tools

- The use of recruitment bonuses is a positive feature of the State's program . . .
- . . . the retention bonus is a positive feature
- The performance management process . . . is sound . . . Agencies show a real commitment to agency and employee performance

7. Budget Appropriation Process

- The OMB has a sound and well documented compensation planning process and schedule
- The salary budgeting process takes into consideration various analyses such as internal equity, relativity to market, market movement, etc.
- Once budgets and appropriations have been approved by the Legislature, funding is appropriated on . . . a “bulk funding” basis. Hay Group commends this approach as it reinforces the accountability of Agency leadership to manage all their resources
- The focus of attention in the future should be on determining whether funding should be based on current employee costs vs. midpoint budgeting and the extent to which vacancies are included in the budgeting process

Hay Group Component Analysis

8. Long-Term Salary Increase Processes

- Performance and Equity have been the basis of salary movement and these are sound and commendable
- An equity pool for addressing internal equity and relativity to market has been used
- However, based in HB 1015 as an example, there has been some “contradictory” statements of intent in setting out the basis for pay delivery
- The State has in place sound fundamentals for future pay delivery mechanisms

9. Vacancy Savings

- The primary use of vacancy savings is for the purpose of paying off leave balances (annual/sick leave) for employees who leave and/or retire
- It is also used for operational costs such as . . . overtime; funding recruiting, retention, and performance bonuses; and market equity adjustments
- The issue that needs to be addressed in State Governments is the determination of the basis of the funding vacant positions that, in some cases, have been vacant for several years. Hay Group does not have data from this project to make specific comments on whether this is the case . . .

Hay Group Recommendations (Must Do's)

Set out in this Section is a list of actions that Hay Group recommends . . . :

- It is the opinion of Hay Group that the current system is not broken and the recommendations made can be done within the current system
- One exception to the above is the need to develop a Statement of Compensation Philosophy.
- Hay Group wants the value of taking actions to be known, rather than just a series of recommendations. Accordingly, the expected outcomes of taking actions is shown for each action.
- Hay Group welcomes the opportunity to partner with the State in developing a game plan and then implementing that game plan

Hay Group Recommendations (Must Do's)

Project Component	Work to Be Done	Outcomes	Priority
A State compensation philosophy statement	<p>Develop a Compensation Philosophy that serves as an umbrella statement, linking compensation to the State's Mission, Vision, Values and its human resources objectives</p> <p>The Compensation Philosophy statement should include:</p> <ul style="list-style-type: none"> • Definition of the market • Definition of compensation • Definition of how pay ranges will be established • Definition of how pay will move • Definition of roles and accountabilities • Definition of what will be stated in code, policy, procedure, etc. <p>Involve key leadership from the Legislative and Executive Branches in the development of the Compensation Philosophy</p>	<ul style="list-style-type: none"> • Sets the Legislative intent for the State's compensation system and program • Increased consistency across the State, as all compensation decisions will be made according to the philosophy statement • Creation of a more balanced approach to compensation by ensuring budgeting and pay administration decisions take into consideration both an external (market) and internal (internal equity and performance) factors • Establishes the appropriate balance between centralization and decentralization of compensation plan administration • Creates a framework within which to consider total reward • Clearly states the roles and accountabilities of the Legislative and Executive Branches of government 	Must Do

Hay Group Recommendations (Must Do's)

Project Component	Work to Be Done	Outcomes	Priority
Methods to minimize salary inequities both within an agency and within State government	Job Evaluation training for HRMS job evaluators and classification/reclassification committee members	<ul style="list-style-type: none"> Authorized users of the Hay Guide Chart-Profile Method of Job Evaluation Consistency and calibration of methodology and application 	Must Do
	Benchmark job evaluation review and refinement	<ul style="list-style-type: none"> Defined benchmark framework of classified positions to serve as internal equity comparisons for non-benchmark jobs 	Must Do
	Review of non-benchmark classifications & develop a revised classification schema	<ul style="list-style-type: none"> All classifications are appropriately evaluated and leveled to ensure internal equity across the State Decrease in the number of classification requests Classification schema is used to support or assist in classification/reclassification decisions and to ensure integrity of the system is maintained overtime 	Must Do

Hay Group Recommendations (Must Do's)

Project Component	Work to Be Done	Outcomes	Priority
Methods used to set pay grade minimums, maximums, and midpoints AND Appropriate market comparisons	Grade structure redesign & grade re-assignment of benchmark and non-benchmark classifications	<ul style="list-style-type: none"> Reduce compression and create more "distance" between levels of work (analogy: the current compressed, accordion-like structure will be expanded) Enhanced internal equity (jobs that require the same level of knowledge, complexity, and accountability are in the same grade) Grade structure in which all the grades are available for use 	Must Do
	Custom salary survey & market analyses for the "local" market <ul style="list-style-type: none"> Discontinue or limit use of the Job Service ND Labor Market Survey 	<ul style="list-style-type: none"> Appropriate "local" comparator market to establish the foundation (in addition to other state comparisons) for the pay strategies Increased number and/or quality of job matches to salary survey data 	Must Do
	Identify Job Family/Occupational groups that require different pay strategies from "general" pay classifications	<ul style="list-style-type: none"> Discontinued use of a "one size fits all" salary structure to one that recognizes different pay markets for certain Job Family/Occupational groups Increased ability to identify and address internal equity issues 	Must Do
	Develop salary ranges for the "general" pay structure and the Job Family/Occupational group structure(s)	<ul style="list-style-type: none"> Enhanced recruitment and retention efforts Increased market competitiveness 	Must Do
	Decrease width of the salary ranges and perform cost-to-implement analyses	<ul style="list-style-type: none"> Enhanced recruitment efforts Enable competent employees to reach market target within a reasonable timeframe Inform the budgeting process 	Must Do

Hay Group Recommendations (Must Do's)

Project Component	Work to Be Done	Outcomes	Priority
Fringe benefits	Increase basic life insurance benefit from current level of \$1,300 to 1 times pay (or a flat dollar benefit of at least \$25,000)	More competitive benefit will provide adequate coverage for basic expenses.	Must Do

Project Component	Work to Be Done	Outcomes	Priority
Methods of developing and sustaining a consistent long-term salary increase administration policy for state government, including cost-of-living increases, across-the-board increases, merit increases, equity increases, and performance increases	<p>Continue to utilize two key components: performance and equity for movement of pay. However, going forward, fund pay movement through one pot of money rather than two separate allocations of funds. This will allow a greater linkage between relativity to market and performance, it is recommended that the following principles be applied:</p> <ul style="list-style-type: none"> • for positions which are below market target, both a market adjustment and a performance payment be made; • for positions where the incumbent is above market target, a performance payment be made; and • for positions which are high in their salary range, the performance payment may be made with a mix of base salary and lump sum payment <p>This concept is illustrated on page 28</p>	<p>Agencies will be better able to administer pay in a way that recognizes both equity and performance</p> <p>The Legislature will know that the salary dollars appropriated are being distributed in accordance with its philosophy and within the fiscal parameters it has established</p>	Must Do

Hay Group Recommendations (Must Do's)

Project Component	Work to Be Done	Outcomes	Priority
A budget and appropriation process for providing funds to agencies to administer the state's salary increase policy	Communicate appropriated funds as a dollar amount rather than a percentage	<ul style="list-style-type: none"> Agencies will no longer have to "battle" the expectation that every employee will receive the appropriated % increase Agencies will have an easier time in adopting the Performance to Equity Matrix 	Must Do
The appropriate use of funding available within agency budgets from accumulated savings resulting from vacant positions and employee turnover. Focus is only on Salary Savings during the year	Fund annual/sick leave	Funding for what is a known commitment of the State	Must Do

Hay Group Recommendations (Must Do's)

Illustrative Only

Relativity to Market Policy Position	% Increase
100% or Above	0%
92.1 – 99.9% of Market Target	1%
Less than 92% Below Market Policy Position	2%

+

Level of Performance	% Increase
Exceeds Expectations	6%
Achieves Expectations	4%
Needs Improvement	0%

= Increase

Laurie Sterioti Hammeren, Director

Ken Purdy, Compensation Manager

QUESTIONS?